

**REPORT OF THE AUDIT OF THE  
CALDWELL COUNTY  
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period  
April 27, 2006 Through May 1, 2007**



**CRIT LUALLEN  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**CALDWELL COUNTY**  
**SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period**  
**April 27, 2006 Through May 1, 2007**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for Caldwell County Sheriff for the period April 27, 2006 through May 1, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$3,045,607 for the districts for 2006 taxes, retaining commissions of \$112,197 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,932,132 to the districts for 2006 taxes. Taxes of \$212 are due to the districts from the Sheriff and refunds of \$728 are due to the Sheriff from the taxing districts.

**Report Comment:**

The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
SHERIFF'S SETTLEMENT - 2006 TAXES .....	3
NOTES TO FINANCIAL STATEMENT .....	5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	9
COMMENT AND RECOMMENDATION .....	13





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Van Knight, Caldwell County Judge/Executive  
Honorable Stanley Hudson, Caldwell County Sheriff  
Members of the Caldwell County Fiscal Court

Independent Auditor's Report

We have audited the Caldwell County Sheriff's Settlement - 2006 Taxes for the period April 27, 2006 through May 1, 2007. This tax settlement is the responsibility of the Caldwell County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Caldwell County Sheriff's taxes charged, credited, and paid for the period April 27, 2006 through May 1, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2007, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Van Knight, Caldwell County Judge/Executive  
Honorable Stanley Hudson, Caldwell County Sheriff  
Members of the Caldwell County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

December 12, 2007



CALDWELL COUNTY  
STANLEY HUDSON, SHERIFF  
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period  
April 27, 2006 Through May 1, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 325,525	\$ 472,278	\$ 1,134,406	\$ 421,980
Tangible Personal Property	50,684	70,605	156,066	194,072
Fire Protection	772			
Increases Through Exonerations	196	279	682	253
Franchise Taxes	55,584	76,625	178,633	
Additional Billings	415	576	1,399	799
Oil and Gas Property Taxes	32	46	112	41
Limestone, Sand and Mineral Reserves	2,205	3,141	7,684	2,851
Penalties	2,991	4,345	10,323	4,337
Adjusted to Sheriff's Receipt	(2,715)	(1,397)	(8,520)	(3,175)
Gross Chargeable to Sheriff	<u>435,689</u>	<u>626,498</u>	<u>1,480,785</u>	<u>621,158</u>
<u>Credits</u>				
Exonerations	3,591	5,126	12,511	4,654
Discounts	5,795	8,378	19,773	9,521
Delinquents:				
Real Estate	6,387	9,191	22,258	8,258
Tangible Personal Property	315	438	974	1,339
Uncollected Franchise Taxes	<u>3</u>	<u>3</u>	<u>8</u>	
Total Credits	<u>16,091</u>	<u>23,136</u>	<u>55,524</u>	<u>23,772</u>
Taxes Collected	419,598	603,362	1,425,261	597,386
Less: Commissions *	<u>18,120</u>	<u>25,643</u>	<u>42,758</u>	<u>25,676</u>
Taxes Due	401,478	577,719	1,382,503	571,710
Taxes Paid	401,553	577,219	1,381,980	571,380
Refunds (Current and Prior Year)	<u>208</u>	<u>292</u>	<u>679</u>	<u>615</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Audit	<u>\$ (283)</u>	<u>\$ 208</u>	<u>\$ (156)</u>	<u>\$ (285)</u>

\* and \*\* See Next Page.

The accompanying notes are an integral part of this financial statement.

CALDWELL COUNTY  
 STANLEY HUDSON, SHERIFF  
 SHERIFF'S SETTLEMENT - 2006 TAXES  
 May 1, 2007  
 (Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	1,540,907
3% on	\$	1,425,261

\*\* Special Taxing Districts:

Library District	\$	92
Health District		71
Extension District		48
Hospital District		(4)
Donaldson Creek Watershed		<u>1</u>

Due Districts or (Refund Due Sheriff)	\$	<u><u>208</u></u>
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CALDWELL COUNTY  
NOTES TO FINANCIAL STATEMENT

May 1, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of May 1, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 30, 2006 through May 1, 2007.

Note 4. Interest Income

The Caldwell County Sheriff earned \$854 as interest income on 2006 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Caldwell County Sheriff collected \$17,042 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of May 1, 2007, the Sheriff owed \$1,379 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Caldwell County Sheriff collected \$1,785 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). This amount was used to operate the Sheriff's office. As of May 1, 2007, the Sheriff owed \$530 in advertising fees to his fee account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Van Knight, Caldwell County Judge/Executive  
Honorable Stanley Hudson, Caldwell County Sheriff  
Members of the Caldwell County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Caldwell County Sheriff's Settlement - 2006 Taxes for the period April 27, 2006 through May 1, 2007, and have issued our report thereon dated December 12, 2007. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Caldwell County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Caldwell County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Caldwell County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Caldwell County Sheriff's Settlement - 2006 Taxes for the period April 27, 2006 through May 1, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Caldwell County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

December 12, 2007



COMMENT AND RECOMMENDATION



CALDWELL COUNTY  
STANLEY HUDSON, SHERIFF  
COMMENT AND RECOMMENDATION

For The Period  
April 27, 2006 Through May 1, 2007

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY & MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

The Sheriff's office has a lack of adequate segregation of duties over receipts and disbursements. The Sheriff's bookkeeper collects payments from customers, records transactions in the receipts ledger, and prepares daily deposits and monthly reports. Upon preparation of the monthly reports, the bookkeeper then prepares checks for required payments and records these payments in the disbursements ledger. The bookkeeper also prepares the monthly bank reconciliations. Adequate segregation of duties would prevent the same person from having a significant role in the processing, recording, and reporting of receipts and disbursements. We recommend the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily tax collection printout. Any differences should be reconciled. He should document this by initialing the bank deposit and the daily tax collection printout.
- The Sheriff should periodically compare his daily tax collection printouts for one month to his monthly tax collection report for one district. Any differences should be reconciled. The Sheriff should document this by initialing this district's monthly tax collection report for the month being examined.
- The Sheriff should periodically compare payments made to the taxing districts per the monthly tax collection reports to the checks that were actually written. The Sheriff should document this by initialing the monthly tax collection report noting that the payment amount agreed with the check.
- The Sheriff should periodically compare the bank reconciliation to the checkbook balance. Any differences should be reconciled. The Sheriff should document this by initialing the bank reconciliation and the balance in the checkbook.

*Sheriff's Response: No response.*

